Digging deeper

By DUSTIN BLEIZEFFER
Star-Tribune energy reporter
Sunday, January 6, 2008 2:00 AM MST

Now that Wyoming coal producers have a higher-capacity set of rails to export more of the black rock, continued growth could depend on the construction of new power plants.

In recent years, coal-burning utilities steadily increased operating capacity from an average of 85 percent to about 92 percent, according to one industry official.

"That's about as high as one could reasonably expect (utility operating capacity) to get. The only way for coal demand to grow is to build new coal facilities," said Thomas A. Johns, vice president of development for Sithe Global LLC, an independent power producer.

That means the prospect for nationwide growth in the near-term is minimal. In fact, the U.S. Department of Energy's Energy Information Administration expects national demand for coal to decline 1.7 percent this year, "in all coal producing regions."

That notion was at least partially solidified recently when PacifiCorp announced it was pulling coal out of its bag of potential new electrical generation sources for its next 10-year planning cycle, including two previously announced coal projects in Wyoming.

"The issue right now is there's so much uncertainty for greenhouse gas regulations, and it's made a lot of people in the market take a pause on what they're going to do," said Johns. "But there's absolutely a need for new generation."

While regulated utilities including PacifiCorp become more hesitant to build new coal plants within a changing regulatory atmosphere in each state, unregulated independent power producers see an opportunity.

Three coal plants are proposed in Nevada, including Sithe Global's Desert Rock project. And more are in the queue in Texas and elsewhere across the nation. Many plan to use Powder River Basin coal.

With the exception of mine-mouth plant proposals, Powder River Basin remains the coal of choice, according to Johns.

"If there's an issue with Powder River Basin coal, it's the escalation of rail transportation costs," Johns said.

That's largely a function of paying off more than $1 billion in investments by railroads in recent years.

"No one can compete with Powder River Basin production costs, but it's the delivered cost everyone looks at," Johns said.

It's a growing concern for Powder River Basin coal producers, particularly in Eastern states where greenhouse gas regulations are tightening. The basin's low-sulfur advantage over higher-heating-content Eastern coal helped Wyoming's industry expand its Midwest and Eastern market share during the 1980s and 1990s. Johns said that as utilities there are forced to add scrubbers to meet more stringent pollution standards, Powder River Basin coal loses that low-sulfur edge.

Wyoming Mining Association Executive Director Marion Loomis said he believes Powder River Basin coal will remain competitive.

"I hesitate to say we are the lowest-cost provider, but we're competitive with lowest-cost suppliers," Loomis said.

Meanwhile, Wyoming coal producers continue to invest in operations, particularly coal load-out facilities to maximize train loading opportunities.

The utility industry's current "pause" on coal comes in the midst of changing regulations, but it is in contrast to growing electrical demand.

Although the nation's electric utilities are expected to rely slightly less on coal as a fuel stock -- down from 51 percent in 2003 to 48 percent in 2015, according to the Energy Information Administration -- it has more to do with the volatility of natural gas prices than concern over greenhouse gas emissions.

The long-term outlook for coal remains steady. Shifting from natural gas, utilities are expected to rely more on coal after 2015. Coal could fuel 57 percent of the nation's electrical generation by 2030, according to the EIA.

"(Utilities) still have to decide how they're going to meet growing demand," Loomis said.

Energy reporter Dustin Bleizeffer can be reached at (307) 577-6069 or dustin.bleizeffer@trib.com.